

Summary:

**Grand Traverse County, Michigan
Grand Traverse County Building
Authority; General Obligation**

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Summary:

Grand Traverse County, Michigan Grand Traverse County Building Authority; General Obligation

Credit Profile

US\$3.79 mil bldg auth rfdg bnds (Grand Traverse Cnty) ser 2019 due 12/01/2036

<i>Long Term Rating</i>	AA/Stable	New
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Grand Traverse Cnty GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Grand Traverse County Building Authority, Mich.'s series 2019 building authority refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on Grand Traverse County's existing general obligation (GO) bonds, either issued by or for the county by various issuers. The outlook is stable.

Security and use of proceeds

The county's full-faith-and-credit GO pledge, along with its ability to levy ad valorem taxes on all taxable property, subject to statutory limitations, secures the series 2019 bonds and the county's GO debt outstanding. Given that we factor the county's revenue-raising ability into our analysis, and the county has fungibility of resources and does not levy taxes on a narrower base, we rate the limited-tax GO debt on par with our view of the county's general creditworthiness. The approximately \$3.8 million in proceeds will refund the authority's series 2012 bonds for savings.

The county has multiple bond issues outstanding, with structures that pledge its limited-tax GO support, while additional underlying taxing units also pledge limited-tax GO support to either portions or all of the debt service. In each case, each party pledges to annually levy ad valorem taxes within authorized millages to fund its obligations and, to the extent that taxes are insufficient, all other available revenue sources are pledged for payment by the county. In each case, our rating is ultimately based on the county's limited-tax GO pledge, which we view as the stronger pledge.

Credit overview

Grand Traverse County maintains a strong financial profile, supported by policies and practices that allow the county to maintain operationally balanced operations through various economic cycles. However, insufficient funding of its pension and other postemployment benefits (OPEB) obligations led to weak funded ratios. The county addresses this issue by overfunding its actuarially determined contribution (ADC) and seeking to modify funding assumptions where possible. Furthermore, the county maintains strong surpluses while making these payments, demonstrating its capacity to fund these liabilities. However, should the county waver from its commitment to funding these liabilities, and ratios materially weaken, the rating could be pressured.

The rating reflect our assessment of the following factors:

- Adequate economy, with market value per capita of \$146,874 and projected per capita effective buying income at 103.5% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 56% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.8% of total governmental fund expenditures and 36.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 1.9% of expenditures and net direct debt that is 72.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with about 80% of debt scheduled to be retired in 10 years, but a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Adequate economy

We consider Grand Traverse County's economy adequate. The county has an estimated population of 93,118. The county has a projected per capita effective buying income of 103.5% of the national level and per capita market value of \$146,874. Overall, the county's market value grew by 8.1% over the past year to \$13.7 billion in 2019. The county unemployment rate was 3.7% in 2018.

Grand Traverse County is widely recognized as an agricultural and tourist area with year-round recreational activities and, according to officials, these sectors have generally remained stable. As a result of the tourist business, the county is a major retail area of northwestern Michigan. Officials report tourism in the region continues to grow, bolstered by additional nonstop flights into the county. In particular, Traverse City continues to expand, with several multimillion dollar projects under construction, including additional housing stock. The principal agricultural business is the growing and processing of cherries, grapes, and other fruit crops. Overall, we expect these trends to continue in the near term, and do not anticipate changes in our view of Grand Traverse's economy.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include:

- Strong revenue and expenditure assumptions, with the use of 10 years' history and outside sources of information when forecasting trends;
- Quarterly detailed budget-to-actual reporting to the board, with budgetary amendments as needed;
- Maintenance of a detailed five-year financial plan used for planning purposes, shared with the board, and updated

annually;

- A five-year capital plan, which identifies project priorities and is updated annually, but does not identify all funding sources. In addition, the county maintains a long-range capital plan (20-25 years out) for longer-term project planning, updated every seven-eight years;
- A formal investment management policy that mirrors state guidelines, with quarterly reporting to the board on investment holdings and earnings; and
- A formal policy of maintaining unassigned reserves in excess of 25% of budgeted expenditures as a sufficient cushion for budgetary pressures. The board recently updated this policy to ensure sufficient cash flow in the event of an economic downturn.

The county does not maintain a debt management policy, but adheres to state guidelines. Grand Traverse is compliant with its policies. Furthermore, management is taking steps to ensure the county mitigates risks associated with cyber-attacks.

Strong budgetary performance

Grand Traverse County's budgetary performance is strong, in our opinion. The county had surplus operating results in the general fund of 5.9% of expenditures, and slight surplus results across all governmental funds of 1.3% in fiscal 2018. We included annual transfers in and out of the general fund and total governmental funds in our assessment of the county's budgetary performance. Our assessment also accounts for the fact that we do not expect budgetary results will be sustained in excess of 5% of operations.

Historically, the county maintains balanced operations, and recently is making efforts to reduce its net pension liabilities by making additional payments. To that end, in fiscal 2017 it used reserves to add an additional \$4.8 million contribution to its pension plan. Otherwise, the county continues to outperform its budget, keeping expenditures in line while revenues outpace projections. With fiscal 2019 nearing its end, officials report performance is in line with expectations. Despite changes to some state revenues as a result of the nearly adopted state budget, management expects to absorb any losses without pressuring operations, making necessary expenditure adjustments. In addition to these changes, the county is implementing a new bailiffs program in November, in an effort to reduce overtime costs at the county jail. Other than these items, which we expect to have an impact on 2020 as well as the end of 2019, management does not expect any major changes to the budget. Given its track record and management's ability to make the necessary budgetary adjustments, we expect the county to maintain at least balanced performance across operating and total governmental funds for the next few years.

Very strong budgetary flexibility

Grand Traverse County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 56% of operating expenditures, or \$20.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$11.1 million (30.2% of expenditures) in the general fund and \$9.6 million (26% of expenditures) of delinquent tax funds that are outside the general fund but legally available for operations, following council approval. With our expectation of continued structural balance in operations, and given the updated reserve policy, our view of the county's flexibility is unlikely to change in the near term.

Very strong liquidity

In our opinion, Grand Traverse County's liquidity is very strong, with total government available cash at 68.8% of total governmental fund expenditures and 36.5x governmental debt service in 2018. In our view, the county has strong access to external liquidity, if necessary, based on its issuance of debt over the past 20 years. The county's investment portfolio is not aggressive, as it is largely in bank deposits, money markets, treasuries, and certificates of deposit. With stable operations and reserves, we expect the county to maintain its liquidity position.

The county privately placed its series 2019 wastewater treatment plant upgrade refunding bonds with PNC Bank. Terms are standard and do not contain any non-credit events of default or acceleration provisions that could pressure liquidity.

Adequate debt and contingent liability profile

In our view, Grand Traverse County's debt and contingent liability profile is adequate. Total governmental fund debt service is 1.9% of total governmental fund expenditures, and net direct debt is 72.8% of total governmental fund revenue. Overall net debt is low, at 1.5% of market value, and approximately about 80% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. The county does not have any additional near-term debt plans that would alter our view of its debt profile. Following this issue, the county will have about \$42 million of direct debt outstanding, a portion of which is self-supporting.

Pension and other postemployment benefits

- Pensions and OPEB costs remain a credit concern for the county, given what we view as a large pension and OPEB obligation without a plan in place to sufficiently address the liability; however, the county is committed to improving the funding of these obligations by overfunding the ADC and adjusting amortization schedules to improve funding progress. Furthermore, the county closed its defined benefit plan to new entrants.
- Should the steps the county is taking result in improved funding ratios and consistent evidence of funding discipline, we would likely view this as an indication of the county's efforts are sufficient to address the obligation, improving our view of its debt and long-term liabilities.
- The county adds an additional \$300,000 each year to its OPEB trust and intends to continue funding the full annual benefits costs, while gradually building up to fully prefunding this liability. We view the commitment to prefunding as a positive step, but expect it will take some time to fully mitigate this risk.

The county participates in the following plans, funded as follows as of Dec. 31, 2018:

- Municipal Employees Retirement System (MERS) of Michigan: 48.85% funded with a proportionate share of the net pension liability of \$48.6 million.
- Grand Traverse County Retiree Health Care Plan: 33.45% funded with a proportionate share of the net OPEB liability of \$994,784.
- The county also offers defined contribution plans for certain employees.

In our opinion, a credit weakness is Grand Traverse County's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Grand Traverse County's combined required pension and actual OPEB contributions totaled 14.1% of total governmental fund expenditures in 2018. Of that amount, 12.4%

represented required contributions to pension obligations, and 1.7% represented OPEB payments. The county made 103% of its ADC in 2018, as part of its plan to shore up funding of its long-term liabilities.

MERS is an agent multiple-employer plan, meaning its assets are jointly managed. The plan has used a 7.75% discount rate since 2015. Starting in 2019, this rate will be reduced to 7.35%, reflecting long-term trends. The plan's elevated discount rate could lead to contribution volatility. Furthermore, some of the county's amortization methods, including its open period and level percent of pay assuming 3.75% growth, are likely to lead to increasing ADCs, as well as ADCs that do not meet our view of minimum funding progress. However, given that the county is currently overfunding its ADC, we expect it would be able to absorb any resulting cost increases without pressuring operations. Furthermore, these additional contributions are aiding the county in reaching its minimum funding progress.

Strong institutional framework

The institutional framework score for Michigan counties with a population greater than 4,000 is strong.

Outlook

The stable outlook reflects our expectation that the county will maintain stable budgetary performance, allowing it to preserve sufficient budgetary flexibility and liquidity. Furthermore, it reflects our expectation that the county will work toward addressing potential budgetary pressures stemming from its long-term liabilities. Therefore, we do not expect to change the ratings during the two-year outlook horizon.

Downside scenario

We could lower the GO rating if the county's budgetary performance significantly weakens due to pressures from increasing pension costs or any other source, causing reserves to materially deteriorate.

Upside scenario

If the county's economic indicators were to improve to levels commensurate with those of its higher-rated peers, combined with significant pension funding progress, holding all other factors equal, we could raise the rating.

Related Research

- 2019 Update Of Institutional Framework For U.S. Local Governments
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of October 24, 2019)

Grand Traverse Cnty blair twp swr sys imp proj rfdg bnds

Long Term Rating

AA/Stable

Affirmed

Grand Traverse Cnty east bay charter twp wtr sys imp proj bnds ser 2016 dtd 04/01/2016 due 11/01/2035

Long Term Rating

AA/Stable

Affirmed

Ratings Detail (As Of October 24, 2019) (cont.)

Grand Traverse Cnty swr & wtr proj rfdg bnds ser 2012 dtd 10/01/2012 due 11/01/2013-2023

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Grand Traverse Cnty GO

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Grand Traverse Cnty Bldg Auth, Michigan

Grand Traverse Cnty, Michigan

Grand Traverse Cnty Bldg Auth (Grand Traverse Cnty) GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Northwestern Regl Arpt Comm, Michigan

Grand Traverse Cnty, Michigan

Northwestern Regl Arpt Comm (Grand Traverse Cnty) GO arpt rev bnds ser 2004 dtd 01/01/2005 due 02/01/2006-2025

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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MOODY'S

INVESTORS SERVICE

ISSUER COMMENT

23 October 2019

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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Grand Traverse County, MI

Annual Comment on Grand Traverse County

Issuer Profile

Grand Traverse County is located in the northwestern region of Michigan's Lower Peninsula, bounded on the north by Grand Traverse Bay. The county seat of Traverse City is approximately 125 miles northwest of Saginaw. The county has a population of 91,222 and a moderate population density of 196 people per square mile. The county's median family income is \$71,745 (2nd quartile) and the August 2019 unemployment rate was 3.1% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and accommodation/food services.

Credit Overview

The credit position for Grand Traverse County is strong, and its Aa2 rating is level with the US counties median of Aa2. Key credit factors include a healthy financial position, an extensive tax base and an average wealth and income profile. It also reflects a negligible debt burden and a somewhat inflated pension liability.

Finances: The financial position of the county is healthy and is relatively favorable when compared to the assigned rating of Aa2. The fund balance as a percent of operating revenues (50.8%) is higher than the US median. Moreover, the cash balance as a percent of operating revenues (35.2%) is roughly equivalent to the US median.

Economy and Tax Base: Overall, the county has a strong economy and tax base, which are a modest credit strength in relation to the assigned rating of Aa2. The total full value (\$12.6 billion) is slightly above the US median. Moreover, the full value per capita (\$136,642) is much stronger than other counties we rate nationwide. Lastly, the median family income is 101.3% of the US level.

Debt and Pensions: The debt burden of Grand Traverse County is light and is roughly comparable with its Aa2 rating. The net direct debt to full value (0.4%) is on par with the US median. On the contrary, the pension liability of the county is somewhat elevated and is a weakness when compared to the assigned rating of Aa2. The Moody's-adjusted net pension liability to operating revenues (2.5x) is materially higher than the US median.

Management and Governance: Michigan counties have an institutional framework score ³ of "A," or moderate. Counties rely on property tax and state aid revenues, which in combination are moderately predictable. Counties have moderate revenue-raising ability, since they face limits on taxable valuation growth (Proposal A) and revenue growth (Headlee Amendment). The Headlee Amendment also creates a permanent reduction in the millage rate, although a voters can approve an override. Expenditures primarily consist of public safety, court, and healthcare expenses, which are moderately predictable. Counties have a

moderate ability to reduce expenditures. While Michigan's constitution provides protections for accrued pension benefits, changes can be made to future benefits.

Sector Trends - Michigan Counties

Most Michigan counties have returned to balanced financial operations through expenditure reductions or revenue enhancements. Counties' primary operating revenues (state aid and property tax receipts) have stabilized, due to recovering real estate values which we expect to continue. Employment trends have stabilized and continue to improve in certain regions. Most counties continue to benefit from material additional reserves and liquidity in their Delinquent Tax Revolving Fund (DTRF) funds. A minority of counties in the state have not implemented sufficient budgetary adjustments since the economic downturn and remain structurally imbalanced with declining reserves that continue to face negative credit stress.

EXHIBIT 1

Key Indicators [4](#) [5](#) Grand Traverse County

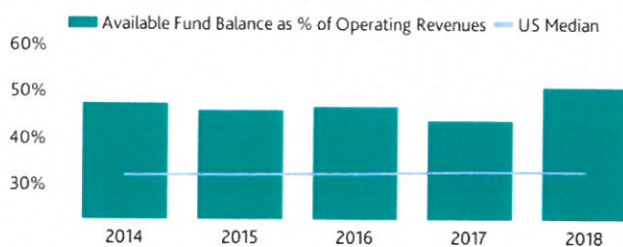
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$10,648M	\$11,056M	\$11,522M	\$12,154M	\$12,649M	\$7,665M	Improved
Full Value Per Capita	\$119,677	\$122,976	\$127,021	\$133,239	\$136,642	\$85,725	Improved
Median Family Income (% of US Median)	101%	101%	101%	101%	101%	93%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	47.3%	45.8%	46.5%	43.6%	50.8%	32.5%	Stable
Net Cash Balance as % of Operating Revenues	27.5%	22.8%	27.9%	29.2%	35.2%	37.8%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	0.2%	0.2%	0.1%	0.4%	0.4%	0.5%	Stable
Net Direct Debt / Operating Revenues	0.51x	0.45x	0.39x	1.06x	1.01x	0.59x	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.9%	0.9%	0.8%	0.8%	0.9%	1.1%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.41x	2.33x	2.33x	2.21x	2.54x	1.38x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	88,981	89,907	90,715	91,222	92,573	N/A	
Available Fund Balance (\$000s)	\$18,730	\$18,877	\$19,278	\$18,539	\$22,223	\$24,307	
Net Cash Balance (\$000s)	\$10,906	\$9,422	\$11,576	\$12,420	\$15,421	\$27,626	
Operating Revenues (\$000s)	\$39,619	\$41,258	\$41,434	\$42,552	\$43,786	\$72,972	
Net Direct Debt (\$000s)	\$20,099	\$18,564	\$15,997	\$45,201	\$44,353	\$40,162	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$95,551	\$96,209	\$96,442	\$94,203	\$111,123	\$89,312	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

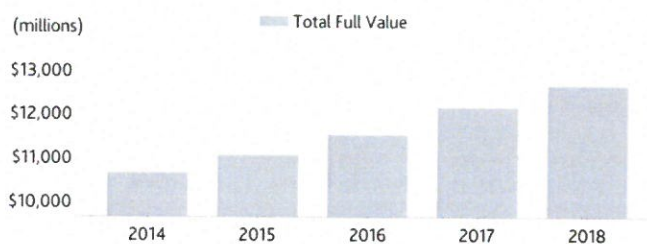
Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

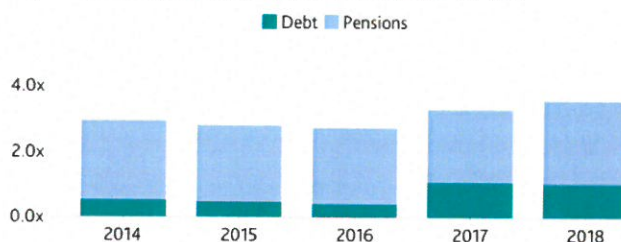
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- The Institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on [Moody's.com](#). The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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